

Message Text

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ACTION EUR-25

INFO OCT-01 IO-13 ADP-00 AGR-20 CEA-02 CIAE-00 COME-00

DODE-00 EB-11 FRB-02 H-02 INR-10 INT-08 L-03 LAB-06

NSAE-00 NSC-10 PA-03 RSC-01 AID-20 CIEP-02 SS-15

STR-08 TAR-02 TRSE-00 USIA-12 PRS-01 OMB-01 OIC-04

RSR-01 ARA-11 /194 W
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R 281430 Z JUN 73
FM AMEMBASSY BONN
TO SECSTATE WASHDC 5980
INFO USMISSION EC BRUSSELS
USMISSION GENEVA
USMISSION OECD PARIS

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E. O. 11652: GDS
TAGS: ETRD, EAID, GW, EC
SUBJECT: A GERMAN VIEW OF THE EC' S GENERALIZED
PREFERENCES - 1973

REF: BONN A-145 (FEBRUARY 9, 1972)

1. SUMMARY. IN RECENT CONVERSATIONS, PARTICULARLY
DURING THE VISIT OF SPC STAFF MEMBER SANDERSON, THE
HEAD OF THE ECONOMICS MINISTRY' S TARIFF POLICY OFFICE,
KUEHN, HAS COMMENTED ON THE EC' S GENERALIZED PREFERENCE
SYSTEM AS IT HAS EVOLVED OVER THE LAST TWO YEARS.
KUEHN' S ASSESSMENT OF THE FUNCTIONING OF THE PREFERENCE
SYSTEM, AND OF ITS FUTURE AS AN EC INSTITUTION, IS GENERALLY FAVORA-
BLE. IN HIS VIEW, MANY OF THE EARLY
DIFFICULTIES FACED BY THE EC IN ADMINISTERING THE
SYSTEM HAVE BEEN MITIGATED BY EXPERIENCE. AT THE SAME
TIME, THE WORST OF THE PROTECTIONIST REACTION TO THE
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PREFERENCES HAS SUBSIDED, LEAVING THE WAY OPEN FOR THE FRG TO PUSH CAUTIOUSLY FOR GRADUAL PROGRESS TOWARD LIBERALIZATION AND EXPANSION OF THE PREFERENCES. END SUMMARY.

2. ON THE BASIS OF THOSE LIMITED INDICATORS AVAILABLE AFTER TWO YEARS OF OPERATION AND ONLY ONE FULL YEAR'S STATISTICS (1972), KUEHN JUDGED THE PREFERENCE SYSTEM TO HAVE MET WITH SOME SUCCESS. THE FIGURES FOR FRG IMPORTS SUGGESTED THAT OF THE APPROXIMATELY \$1 03 0 MILLION WORTH OF PREFERENCE " OPPORTUNITIES" AVAILABLE TO THE LDC'S IN 1972, I. E. THE SUM TOTAL OF ALL THE INDIVIDUAL TARIFF QUOTAS, BETWEEN 1/2 AND 2/3 HAD BEEN UTILIZED. (SINCE THE EC DOES NOT MAINTAIN STATISTICS ON NON- SENSITIVE GOODS IMPORTED UNDER THE PREFERENCES, KUEHN WAS EXTRAPOLATING FROM FRG IMPORT FIGURES.) THIS REPRESENTS A REASONABLY FULL UTILIZATION OF IMPORT OPPORTUNITIES, SINCE THE THEORETICAL OPPORTUNITIES MUST BE EXPLOITED UNDER THE LIMITATIONS IMPOSED BY NATIONAL QUOTAS FOR BOTH THE EXPORTING LDCS (BUTTOIRS) AND IMPORTING COUNTRIES. (SEE REF AFR FOR A DESCRIPTION OF THE MECHANICS OF THE SYSTEM).

3. THE 1972 EC SUMMIT MEETING IN PARIS HAD GIVEN ITS APPROVAL OF AN IMPROVEMENT OF THE SYSTEM. KUEHN DID NOT EXPECT THIS MANDATE TO RESULT IN A SIMPLIFICATION OF THE PRESENT SYSTEM'S COMPLEXITIES. INSTEAD, HE ANTICIPATED AN INCREASE IN THE TOTAL NUMBER OF PREFERENCE CHANCES AVAILABLE, PERHAPS BY USING 1971 AS THE BASE YEAR FOR DETERMINING EC IMPORTS OF LDC PRODUCTS INSTEAD OF 1968, A BAD YEAR ECONOMICALLY. ACCORDING TO KUEHN'S CALCULATIONS, THIS WOULD ADD APPROXIMATELY 1/3 TO THE TOTAL OF PREFERENCE CHANCES. ADDITION OF THE IMPORTS OF THE THREE " NEW" MEMBERS OF THE EC WOULD FURTHER INCREASE THE TOTAL BY ABOUT 1/3.

4. KUEHN EXPRESSED HIS DISTASTE FOR MEDDLING WITH THE DELICATELY BALANCED MECHANISMS OF BUTTOIRS AND IMPORTING QUOTAS, INDICATING THEIR POLITICAL UTILITY. THE PROTECTIVE VALUE OF NATIONAL IMPORT QUOTAS FOR SENSITIVE GOODS, FOR INSTANCE, WAS MORE PSYCHOLOGICAL THAN REAL, LIMITED OFFICIAL USE

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SINCE THE GOODS SUBSEQUENTLY COULD MOVE FREELY WITHIN THE COMMUNITY. THE COSMETIC VALUE OF THESE QUOTAS, HOWEVER, HAD BEEN A FACTOR IN STILLING THE PROTESTS OF GERMAN ENTERPRISES AND LABOR GROUPS. THE IMPOSITION OF STRINGENT BUTTOIRS OF AS LOW AS 2 0 PERCENT AND THE DIVISION OF CERTAIN TARIFF GROUPS INTO SUB- GROUPS, EACH WITH THEIR OWN NATIONAL IMPORT QUOTAS AND BUTTOIRS, HAD

BEEN SIMILARLY HELPFUL IN MAINTAINING THE PRINCIPLE OF
NO EXEMPTION FROM THE PREFERENCES.

5. NEVERTHELESS, KUEHN SAID THAT THE DEVELOPERS OF
THE SYSTEM, INCLUDING HIMSELF, MIGHT HAVE BEEN OVER-
CAUTIOUS IN THE EXTENT TO WHICH THEY HAD INTRODUCED THESE
RESTRICTIONS. HE LOOKED FOR SOME LIBERALIZATION IN THE
FUTURE. AS AN EXAMPLE OF PROGRESS ALREADY ACHIEVED IN
THIS DIRECTION, KUEHN POINTED TO THE REDUCTION IN THE
NUMBER OF HIGHLY SENSITIVE GOODS SUBJECT TO THE
PREALLOCATION OF IMPORT LICENSES. THE NUMBER OF THESE

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GOODS HAD BEEN REDUCED FROM ABOUT 1 00 IN 1971 TO ABOUT
25 IN 1973.

6. KUEHN CITED THE LARGE SHARE OF PREFERENCES USED UP
BY YUGOSLAVIA AS ONE UNEXPECTED PROBLEM THAT HAD

DEVELOPED WITHIN THE PREFERENCE SYSTEM. HE ASCRIBED THE DOMINANT YUGOSLAV POSITION TO THE LEVEL OF TRANSPORT COSTS BETWEEN YUGOSLAVIA AND THE EC, LOWER THAN TRANSPORTATION COSTS FROM MOST OTHER LDCS. AS TARIFFS WERE LOWERED BY PREFERENCES, THIS ADVANTAGE IN TRANSPORT COSTS BECAME MORE IMPORTANT. KUEHN PREDICTED THAT MEXICO WOULD POSE A SIMILAR PROBLEM FOR THE US UNDER A US PREFERENCE SYSTEM.

7. KUEHN MENTIONED ONE BENEFIT OF THE PREFERENCES, NOT INTENDED BY THE CREATORS OF THE SYSTEM, NOW BEING ENJOYED BY SOME YUGOSLAV EXPORTERS. -- KICKBACKS ON THE MARGIN OF PREFERENCES. SOME GERMAN IMPORTERS HAD LIMITED OFFICIAL USE LIMITED OFFICIAL USE

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COMPLAINED THAT THEIR YUGOSLAV TRADING PARTNERS WERE SEEKING (AND OBTAINING) A SHARE OF THE INCREASED PROFIT MARGIN MADE POSSIBLE BY PREFERENCES.

8. KUEHN EXPRESSED CAUTIOUS OPTIMISM THAT GERMAN CONSLVQKZ KAOTQVSLIZING# BENEFITS OF A MORE CONVENTIONAL VARIETY FROM THE PREFERENCES. BASED ON HIS OBSERVANCE OF THE KEEN ATTENTION PAID BY MAIL- ORDER FIRMS AND LARGE DEPARTMENT STORES TO THE RATE OF UTILIZATION OF PREFERENCES, KUEHN HYPOTHESIZED THAT THE COMPETITION AMONG THESE IMPORTANT IMPORTERS, AT LEAST, WAS REDUCING THE PRICE PAID BY THE GERMAN CONSUMER.

9. A FINAL FILLIP PROVIDED BY KUEHN -- AMONG THOSE PAYING SPECIAL ATTENTION TO THE WORKINGS OF THE PREFERENCE SYSTEM WERE SOME GERMAN FIRMS MANUFACTURING ABROAD. IT APPEARED, FOR EXAMPLE, AS IF VW WAS TAKING ADVANTAGE OF THE PREFERENCE SYSTEM BY EXPORTING TO THE FRG AUTOMOBILE PARTS MADE IN BRAZIL AND MEXICO. THIS COULD BE DONE ON A RATHER LARGE SCALE, SINCE AUTO PARTS ARE NON- SENSITIVE GOODS NOT EVEN MONITORED BY EC COUNTRIES OTHER THAN THE FRG. THE ECONOMICS MINISTRY WAS EXPECTING THIS MATTER TO SURFACE EVENTUALLY IN THE FORM OF COMPLAINTS FROM OTHER GERMAN FIRMS. HILLENBRAND

NOTE BY OC/ T: # AS RECEIVED. WILL BE SERVICED ON REQUEST.

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